

Message Text

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ACTION ARA-14

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R 201415Z SEP 77
FM AMEMBASSY BRASILIA
TO SECSTATE WASHDC 3787
AMCSONSUL RIO DE JANEIRO
AMCONSUL SAO PAULO

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EO 11652 NA
TAGS ETRD EFIN BR
SUBJECT: SELECTED ECONOMIC INDICATORS AUGUST

1. EXCHANGE RATE CHANGE-THE OFFICIAL CRUZEIRO/DOLLAR RATE DEPRECIATED AS OF SEPTEMBER 15, 1977 TO 14.92 BUYING AND 15.02 SELLING. THIS WAS THE TENTH MINI-DEVALUATION IN CY 1977 AND THE TIME LAPSE WAS 30 DAYS. THE NEW RATES REFLECT THE FOLLOWING CHANGES: 1.2 PERCENT SINCE THE DEPRECIATION IN AUGUST ; 21.5 PERCENT CUMULATIVE IN CY 1977; 34.4 PERCENT IN LAST 12 MONTHS.

2. FOREIGN TRADE - MINFIN SIMONSEN ANNOUNCED THAT PRELIMINARY DATA SUGGESTS THAT BRAZIL EXPERIENCED A TRADE DEFICIT OF ABOUT \$46 MILLION IN AUGUST. HE ESTIMATED EXPORTS AT \$1,082 MILLION F.O.B. (INCLUDING ONLY \$38 MILLION FROM COFFEE) AND IMPORTS OF \$1,128 MILLION F.O.B. SIMONSEN CONSIDERS THE OVERALL TRADE PERFORMANCE (I.E., ESTIMATED CUMULATIVE SURPLUS OF \$300 MILLION IN JAN-AUG) AS STILL SATISFACTORY IN VIEW OF THE VERY LOW LEVEL OF COFFEE EARNINGS IN RECENT MONTHS.

3. OFFICIAL RESERVES - DATA RECENTLY PUBLISHED INDICATES VIRTUALLY
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NO CHANGE DURING MAY WITH RESERVES OF \$5,808 MILLION AT THE END OF THE MONTH. HOWEVER, A RELIABLE SOURCE IN THE CENTRAL BANK ADVISED FINATT THAT OFFICIAL FOREIGN EXCHANGE RESERVES RECOVERED TO APPROXIMATELY \$6.2 BILLION IN MID-AUGUST.

4. PRICES - THE GENERAL PRICE INDEX ROSE 1.3 PERCENT IN AUGUST, WHICH WAS THE SMALLEST MONTHLY INCREASE IN CY 1977. THE CUMULATIVE

INCREASE WAS 26.7 PERCENT IN JAN-AUG 77 AND 39.8 PERCENT IN THE LAST 12 MONTHS. THE COST -OF-LIVING IN RIO INCREASED 1.9 PERCENT IN AUGUST, 29.4 PERCENT IN JAN-AUG, AND 43.2 PERCENT IN THE LAST 12 MONTHS. WHOLESAL PRICE PERFORMANCE IMPROVED MOST DRAMATICALLY WITH ONLY 0.9 PERCENT INCREASE IN AUGUST COMPARED TO 1.9 PERCENT IN JULY. THE CUMULATIVE INCREASES IN THE WHOLESAL PRICE INDEX ARE 24.5 PERCENT IN JAN-AUG AND 37.0 IN THE 12 MONTHS SEP 1976-AUG 1977. THE MOST SIGNIFICANT FACTOR AFFECTING WHOLESAL PRICES AND THE GENERAL INDEX OF INFLATION IN AUGUST WAS NO INCREASE IN PRICES FOR FOODSTUFFS. PRICES FOR BEANS AND EGGS ACTUALLY DECLINED SHARPLY. ALSO, THE WHOLESAL INDEX ACCOUNTS FOR 60 PERCENT OF THE CALCULATION OF THE GENERAL PRICE INDEX.

5. MONEY AND CREDIT- AFTER RELATIVELY LITTLE MONETARY EXPANSION IN JULY, MONEY SUPPLY GROWTH AND BANKING SECTOR LIQUIDITY INCREASED SHARPLY IN AUGUST. THE INCREASE IN MONEY SUPPLY (M1) WAS 2.8 PERCENT IN AUGUST, AND BROUGHT CUMULATIVE EXPANSION TO 13.9 PERCENT IN THE PERIOD JAN-AUG 1977 AND 40.7 PERCENT IN THE LAST 12 MONTHS. IN CONTRAST, MONEY SUPPLY GROWTH IN JAN-AUG 1976 WAS 11.1 PERCENT AND THE 1977 MONETARY BUDGET TARGET WAS 9.7 PERCENT. THE MAIN FACTOR IN THE EXPANSION IN AUGUST WAS AN INCREASE IN DEMAND DEPOSITS IN THE COMMERCIAL BANKS. HOWEVER, THE OVERALL MONETARY BASE CONTRACTED SOMEWHAT IN AUGUST OWING TO SUBSTANTIAL PLACEMENT OF TREASURY BILLS THROUGH OPEN MARKET OPERATIONS BY THE CENTRAL BANK. FREE RESERVES OF THE BANKING SYSTEM APPROXIMATELY DOUBLED IN AUGUST AND INTEREST RATES DECLINED SLIGHTLY FOR THE FIRST TIME LIMITED OFFICIAL USE

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IN 1977 (E.G. NOMINAL RATES ON INVESTMENT BANK LENDING DROPPED FROM ABOUT 48-51 PERCENT P.A. TO 45-47 PERCENT P.A.).

6. REAL ECONOMIC ACTIVITY - ECONOMIC INDICATORS CONTINUED MIXED IN JULY-AUGUST. CONSUMPTION OF PETROLEUM DERIVATIVES PICKED UP SLIGHTLY IN AUGUST BUT THE CUMULATIVE INCREASE IN JAN-AUG COMPARED TO THE SAME PERIOD OF 1976 WAS ONLY 1.8 PERCENT AND

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CONSUMPTION OF GASOLINE WAS STILL DOWN BY ABOUT 5 PERCENT. THE LATTER WAS IN PART DUE TO INCREASED USE OF SUGAR-BASED ALCOHOL. AUTOMOBILE PRODUCTION WAS DOWN 7.4 PERCENT AND AUTO SALES WERE OFF 8.6 PERCENT THROUGH AUGUST. NON-AUTO MECHANICAL INDUSTRY PRODUCTION IN SAO PAULO WAS 2.1 PERCENT BELOW LAST YEAR'S OUTPUT IN JAN-AUG. RECORD NUMBERS OF REQUESTED BANKRUPTCIES IN SAO PAULO, ESPECIALLY AMONG RETAIL CLOTHING AND HOUSEHOLD APPLIANCES FIRMS, BROUGHT THE TOTAL THROUGH AUGUST TO 33 PERCENT HIGHER THAN IN JAN-AUG 1976. ALSO NEW JOB OFFERS IN SAO PAULO ARE DOWN FROM 1976 BUT THERE IS STILL NO EVIDENCE OF MEASURABLE UNEMPLOYMENT. TWO KEY INDICATORS OF CONTINUED INDUSTRIAL ACTIVITY WERE 10 PERCENT HIGHER USE OF ELECTRIC ENERGY JAN-JULY AND 7 PERCENT INCREASE THROUGH AUGUST IN CONSUMPTION OF LIQUID GAS AND DIESEL OIL. FINALLY, PIG-IRON AND STEEL PRODUCTION IS RUNNING, RESPECTIVELY, 16 PERCENT AND 20 PERCENT AHEAD OF 1976. (SEE ALSO REF B FOR FIRST SEMESTER SAO PAULO INDUSTRIAL AND EMPLOYMENT DATA.)

7. COMMENT-THE MOST IMPORTANT DEVELOPMENT IN RECENT WEEKS WAS THE REDUCTION IN THE ANNUAL RATE OF INFLATION TO LESS THAN 40 PERCENT. THIS PSYCHOLOGICAL BREAKTHROUGH HELPED TO CONFIRM THE TREND SINCE MAY AND TO BRING ABOUT A TENTATIVE BUT DISCERNABLE
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DECLINE IN INTEREST RATES. ANTICIPATION OF THE CONSEQUENT REDUCTION IN MONETARY CORRECTION IN COMING MONTHS IS SEEN AS ALREADY PROMPTING SOME SHIFT OUT OF INDEXED SAVINGS AND CONTRIBUTING IN PART TO RESURGENCE IN STOCK MARKET ACTIVITY. ANOTHER IMPORTANT FACTOR IN THE INCREASED STOCK MARKET ACTIVITY WAS BIDDING FOR PETROBRAS SHARES IN RESPONSE TO NEW OIL STRIKES IN THE CAMPOS BASIN. ANNOUNCED MAINTENANCE OF THE 40 PERCENT GUIDELINE FOR NEW WAGE CONTRACTS IN OCTOBER MEANS THAT FOR THE FIRST TIME IN TWO YEARS WAGE ADJUSTMENTS MAY BE GREATER THAN INFLATION OVER THE PAST 12 MONTHS. THIS DEVIATION FROM RECENT PRACTICE DOES NOT AMOUNT TO ALTERATION OF THE ANTI-INFLATIONARY STANCE OF GOB INCOME POLICIES BUT MAY BE DUE IN PART TO RISING CRITICISM BY THE METAL WORKERS UNION THAT WAGES HAVE NOT KEPT PACE WITH INFLATION. RESTORATION OF FOREIGN RESERVES REFLECTS RENEWED CAPITAL INFLOWS AND PROBABLY

CONTRIBUTED TO INCREASED BANK LIQUIDITY. THE GOB IS NOT
CONCERNED WITH ACCELERATED MONETARY EXPANSION IN AUGUST BECAUSE
1) THE MONETARY BUDGET TARGETS ASSUMED INFLATION OF ONLY 30 PERCENT
IN CY 1977 WHICH CLEARLY IS NOT ATTAINABLE AND 2) THE AUTHORITIES
ARE CONFIDENT THEY HAVE GROWTH OF THE MONETARY BASE UNDER CONTROL.
HOWEVER, THEY WILL HAVE TO FIRMLY MAINTAIN EXISTING MONETARY AND
FISCAL CONSTRAINTS IN ORDER TO AVOID EXCESSIVE EXPANSION AND
RENEWED PRESSURE ON PRICES IN THE FOURTH QUARTER DUE TO SEASONAL
FACTORS SUCH AS PAYMENT OF YEAR-END BONUSES AND INCREASED FOREIGN
CAPITAL INFLOWS. CRIMMINS

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